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**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-18-99

**FINANCIAL AND COMPLIANCE AUDIT**  
**TOGETHER WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

**runo**

**Tervalon**

CERTIFIED PUBLIC ACCOUNTANTS

# NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.

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**& Tervalon**

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WALDO J. MORET, JR., CPA

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
**Neighborhood Housing Services**  
**of New Orleans, Inc.**  
New Orleans, Louisiana

We have audited the financial statements of the **Neighborhood Housing Services of New Orleans, Inc. (NHSNO - a nonprofit organization)** as of and for the year ended December 31, 1998, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of NHSNO. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Neighborhood Housing Services of New Orleans, Inc.** as of December 31, 1998 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

**INDEPENDENT AUDITORS' REPORT**  
(CONTINUED)

To the Board of Directors  
Neighborhood Housing Services  
of New Orleans, Inc.  
New Orleans, Louisiana  
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In accordance with Government Auditing Standards, we have also issued a report dated June 22, 1999 on our consideration of NHSNO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. Schedules I through III as listed in the accompanying table of contents are presented for purpose of additional analysis and are not a required part of the financial statements of NHSNO. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*Bruno & Tervalon*  
**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

June 22, 1999

**Bruno  
& Tervalon**

CERTIFIED PUBLIC ACCOUNTANTS

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 1998**

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**ASSETS**

Cash and cash equivalents	\$ 673,043
Mortgage loans receivable	2,460,019
Allowance for uncollectible loans (NOTES 2 and 4)	(108,441)
Grant receivable (NOTE 14)	234,583
Net property, furniture and equipment (NOTES 2 and 8)	225,190
Other real estate owned	137,418
Deposits	<u>1,616</u>
 Total assets	 \$ <u>3,623,428</u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 12,880
Accrued expenses	4,206
Due to Neighborhood Housing Services of America (NOTES 2 and 3)	743,515
Construction escrow (NOTE 5)	230,944
Client insurance escrow	6,970
Notes payable (NOTE 7)	<u>93,087</u>
 Total liabilities	 <u>1,091,602</u>
 Net Assets:	
Unrestricted	263,735
Temporarily restricted (NOTE 15)	1,931,611
Permanently restricted (NOTE 16)	<u>336,480</u>
 Total net assets	 <u>2,531,826</u>
 Total liabilities and net assets	 \$ <u>3,623,428</u>

The accompanying notes are an integral part of these  
financial statements.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u> (NOTE 16)	<u>Total</u>
<b>REVENUES AND RECLASSIFICATIONS:</b>				
Contributions	\$ 92,614	\$ 25,928	\$ -0-	\$ 118,542
Grants (NOTE 10)	279,625	328,856	50,000	658,481
Interest	2,468	42,828	6,087	51,383
Construction management fees	26,563	-0-	-0-	26,563
Loan charges and fees	29,052	-0-	-0-	29,052
Rental income	6,130	-0-	-0-	6,130
Gain on sale of real estate	-0-	9,748	-0-	9,748
Other revenue	2,420	1,474	-0-	3,894
Net assets released from restrictions: satisfaction of program restrictions	<u>150,784</u>	<u>(150,272)</u>	<u>(512)</u>	<u>-0-</u>
<b>Total revenues and reclassifications</b>	<u><b>589,656</b></u>	<u><b>258,562</b></u>	<u><b>55,575</b></u>	<u><b>903,793</b></u>
<b>EXPENSES:</b>				
Salaries	301,466	-0-	-0-	301,466
Employee benefits	28,670	-0-	-0-	28,670
Payroll taxes	23,864	-0-	-0-	23,864
Interest	1,799	-0-	-0-	1,799
Depreciation (NOTE 2)	9,206	-0-	-0-	9,206
Office supplies	12,906	-0-	-0-	12,906
Deferred loans forgiven	16,600	-0-	-0-	16,600
Professional fees	61,216	-0-	-0-	61,216
Insurance	9,393	-0-	-0-	9,393
Other operating expenses (SCHEDULE II)	56,604	-0-	-0-	56,604
Miscellaneous equipment	223	-0-	-0-	223
Homebuyers club expenses	<u>3,940</u>	<u>-0-</u>	<u>-0-</u>	<u>3,940</u>
<b>Total expenses</b>	<u><b>525,887</b></u>	<u><b>-0-</b></u>	<u><b>-0-</b></u>	<u><b>525,887</b></u>
Changes in net assets	63,769	258,562	55,575	377,906
Beginning net assets	<u>199,966</u>	<u>1,673,049</u>	<u>280,905</u>	<u>2,153,920</u>
Ending net assets	<u><u>\$ 263,735</u></u>	<u><u>\$1,931,611</u></u>	<u><u>\$ 336,480</u></u>	<u><u>\$ 2,531,826</u></u>

The accompanying notes are an integral part of these  
financial statements.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

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Cash flows from Operating Activities:	
Changes in net assets	\$ 377,906
Adjustments to reconcile	
changes in net assets to cash	
provided by operating activities:	
Gain on sale of real estate	(9,748)
Deferred loans forgiven	16,600
Depreciation expense	9,206
Increase in grant receivable	(132,029)
Increase in deposits	(1,000)
Decrease in accounts payable	(4,275)
Decrease in accrued expenses	(513)
Decrease in construction escrow	(91,323)
Decrease in client insurance escrow	<u>(366)</u>
Net cash provided by operating activities	<u>164,458</u>
Cash Flows From Investing Activities:	
Increase in mortgage loans receivable	(51,681)
Purchase of property and equipment	(97,383)
Increase in other real estate owned	<u>(71,864)</u>
Net cash used in investing activities	<u>(220,928)</u>
Cash Flows From Financing Activities:	
Principal payment on notes payable	(129,850)
Proceeds from notes payable	145,776
Increase in due to NHSA	<u>(40,102)</u>
Net cash used in financing activities	<u>(24,176)</u>
Decrease in cash and cash equivalents	(80,646)
Cash and cash equivalents-beginning of year	<u>753,689</u>
Cash and cash equivalents-end of year	<u>\$ 673,043</u>
Interest paid in cash during 1998	<u>\$ 1,799</u>

The accompanying notes are an integral part of these financial statements.

**NEIGHBORHOOD HOUSING SERVICE OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

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NOTE 1 - Organization:

**Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** is a private, locally funded, nonprofit 501(c)(3) corporation which works to revitalize declining neighborhoods and provide affordable housing opportunities. **NHSNO** is based on the idea that a partnership of local residents, financial institutions, businesses, and local government working together can stop decline, promote reinvestment, restore pride and confidence, re-establish a sense of neighborhood self-reliance in the **NHSNO** neighborhoods and the broader community.

NOTE 2 - Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the **NHSNO** and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the **NHSNO** and/or the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 2 - Summary of Significant Accounting Policies, Continued

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the NHSNO. Generally, the donors of these assets permit the NHSNO to use all or part of the income earned on any related investments for general or specific purposes.

GENERAL

As of December 31, 1998, NHSNO administered the following programs:

General Program

The General Program is used to account for all financial resources that are not required to be accounted for in another program. This program is used to pay the cost of the general operations of NHSNO and certain expenditures that are budgeted or permitted in other programs.

Freret Street Project Program

The Freret Street Program is a temporarily restricted program that was established to account for various projects in the Freret Neighborhood.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

GENERAL, Continued:

Revolving Loan Programs

The Revolving Loan Programs represent the following:

Community Development Block Grant

This program represents temporarily restricted net assets established through a grant agreement with the City of New Orleans. Annual contracts provide funds for **NHSNO** to use for the purpose of providing loans to area residents who cannot qualify for conventional financing for home renovations and acquisitions.

Neighborhood Reinvestment Corporation Program

This program represents permanently restricted net assets established through a grant agreement with Neighborhood Reinvestment Corporation for the purpose of providing loans to designated area residents for home renovations and acquisitions.

Neighborhood Housing Improvement Program

This program represents temporarily restricted net assets established through a grant agreement with the City of New Orleans. Annual contracts provided funds for **NHSNO** to use for purposes of providing loans to area residents for home renovations and acquisitions, and for providing home ownership training and housing acquisition assistance grants. Expenses recorded to this program include those incurred by the program and paid from its own fund.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

**GENERAL**, Continued:

Neighborhood Housing Services of America (NHSA) Program

This program represents the activities and accounts of NHSA. Through an agreement between NHSNO and NHSA (See Note 3), certain mortgages have been sold to NHSA with the loans being serviced by NHSNO.

Brown Foundation

This program represents the activities and accounts of the Brown Foundation. Through an agreement with the Brown Foundation, loans are serviced by NHSNO.

Open Door

This program was established for the purpose of providing interim financing for home renovations to designated area residents who have obtained commitments for permanent financing from a financial institution.

First-Time Homeowner's Program (HOME)

This program represents temporarily restricted net assets established through a grant agreement with the City of New Orleans. The purpose of program is to provide loans to low-income individuals who are seeking to purchase a home for the first time.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

Cash and Cash Equivalents

**NHSNO** considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and Grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants from governmental agencies are recorded when **NHSNO** is entitled to the funds.

Mortgage Loans Receivable and Allowance for Uncollectible Loans

Loans are stated at the amount of unpaid principal. The allowance for uncollectible loans is established through a provision for bad debts charged to expenses. Loans are charged against the reserve for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 2 - Summary of Significant Accounting Policies, Continued:

Income Taxes

**NHSNO** is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for federal or state income taxes have been recorded in the accompanying financial statements.

Property, Furniture and Equipment

Property, furniture and equipment are recorded at cost (or fair market for donated assets) and are depreciated using the straight-line method over the estimated useful lives of the related assets.

NOTE 3 - Loans Serviced:

Loans Serviced for NHSA

Under the terms of the Loan Sales and Service Agreement, **NHSNO** has sold certain mortgage loans to Neighborhood Housing Services of America (NHSA) and has agreed to service the loans for a nominal fee. **NHSNO** is required to repurchase or replace all mortgages sold to NHSA which become delinquent by 90 days or more. Principal balances outstanding on mortgages sold to NHSA and serviced by **NHSNO** amounted to \$741,147 at December 31, 1998.

Loans Serviced for Brown Foundation

**NHSNO** serviced loans for the Brown Foundation with a total principal balance of \$634,964 at December 31, 1998.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 4 - Allowance for Uncollectible Loans:

The following is an analysis of the allowance for uncollectible loans as of December 31, 1998:

	<u>CDBG</u>	<u>NRC</u>	<u>NHIF</u>	<u>TOTAL</u>
Beginning balance	\$ 95,483	\$ 8,715	\$ 4,243	\$108,441
Loans written-off	-0-	-0-	-0-	-0-
Recoveries of loans previously written-off	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Ending balance	<u>\$ 95,483</u>	<u>\$ 8,715</u>	<u>\$ 4,243</u>	<u>\$108,441</u>

NOTE 5 - Construction Escrow:

Construction escrow represents funds that have been committed for rehabilitation projects but have not been disbursed to construction contractors.

NOTE 6 - Contingencies:

Grants and contracts with agencies often require fulfillment of certain conditions as set forth in the terms of the instrument. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, the Board of Directors deems the contingency unlikely, since NHSNO has agreed to comply with the grantor's provisions.

Certain legal actions are pending against NHSNO. Management, after reviewing with counsel, considers the aggregate liability or loss, if any, resulting from them will not be material.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 7 - Notes Payable:

NHSNO's obligation under notes payable consists of the following:

0% note payable maturing January 1, 2000	\$ 4,791
3.0% revolving line-of-credit commencing on April 20, 1998 and continuing until the note is paid in full. This loan is secured by real estate.	26,116
4.0% revolving line-of-credit commencing October 1, 1998 and continuing until the note is paid in full. This loan is secured by real property.	<u>62,180</u>
Total	\$ <u>93,087</u>

NOTE 8 - Property, Furniture and Equipment:

At December 31, 1998, NHSNO's property, equipment and accumulated depreciation were classified as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 21,079	\$ -0-	\$ 21,079
Building	117,260	17,694	99,566
Furniture, fixtures and equipment	37,872	30,710	7,162
Construction-in progress	<u>97,383</u>	<u>-0-</u>	<u>97,383</u>
	\$ <u>273,594</u>	\$ <u>48,404</u>	\$ <u>225,190</u>

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 9 - Fair Values of Financial Instruments:

The fair values of financial instruments have been determined by NHSNO utilizing available market information and appropriate valuation methodologies. NHSNO considers the carrying amounts of cash, unconditional promises to give and notes payable to approximate fair value.

The estimated fair value of mortgage loans receivable could not be determined because of the excessive cost in calculating such valuation.

NOTE 10 - Restricted Grants:

The Neighborhood Reinvestment Corporation (NRC) provided the following support to NHSNO for the year ended December 31, 1998:

General Program

NRC provided \$115,000 of expendable grants during the year to defray operating expenses incurred by the NHSNO through December 31, 1998.

Neighborhood Reinvestment Capital Fund

NRC provided a \$50,000 capital grant during the year for making loans and for acquisition of capital projects.

The First-Time Homeowner's Program (HOME) provided \$328,856 in grant support to NHSNO at December 31, 1998.

NOTE 11 - Transfers Between Funds:

For the year ended December 31, 1998, CDBG was authorized to transfer \$95,521 in funds to the general fund to reimburse the general fund for CDBG expenses.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 12 - Concentration of Credit Risk:

The NHSNO lends primarily to low-to-moderate income individuals living within the New Orleans area. The majority of loans are secured by first and second mortgages on residential real estate. The mortgage loans receivable is a concentration of credit risk.

NHSNO maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

NOTE 13 - Interim Financing:

During 1998, Neighborhood Reinvestment Corporation Fund, Open Door Fund, CDBG Fund and Neighborhood Housing Improvement Fund provided interim financing for certain borrowers who have obtained commitments for permanent financing from the First Time Homeowner's Program (HOME).

NOTE 14 - Grant Receivable:

Grant receivable at December 31, 1998 represents funds due from the City of New Orleans for the disbursement of approved First Time Homeowners's Program loans.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**

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NOTE 15 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following specific program services:

CDBG	\$ 832,684
NHIF	376,527
Freret Street Project	8,308
Home	644,092
Open Door	<u>70,000</u>
Total	\$ <u>1,931,611</u>

NOTE 16 - Permanently Restricted Net Assets:

Permanently restricted net assets of \$336,480 represents the balance in the Neighborhood Reinvestment Revolving Loan and Capital Projects Fund. This amount is restricted to investments in perpetuity, the income may be expendable (unrestricted) to support the operations of NHSNO.

**SUPPLEMENTARY INFORMATION**

**SCHEDULE I**

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>SUPPORT</u> <u>SERVICES</u>	<u>PROGRAM SERVICES</u>		
			Home	
	Management and <u>General</u>	Construction Management <u>Assistance</u>	Ownership and Lending <u>Assistance</u>	<u>Total</u>
<b><u>EXPENSES</u></b>				
Salaries and related expenses:				
Salaries	\$ 88,601	\$ 103,101	\$ 109,764	\$ 301,466
Employee benefits	8,426	9,805	10,439	28,670
Payroll taxes	<u>7,014</u>	<u>8,161</u>	<u>8,689</u>	<u>23,864</u>
Total salaries and related expenses	<u>104,041</u>	<u>121,067</u>	<u>128,892</u>	<u>354,000</u>
Other:				
Equipment rental	636	740	788	2,164
Insurance	2,761	3,212	3,420	9,393
Maintenance and repairs	1,929	2,244	2,390	6,563
Office supplies	3,793	4,414	4,699	12,906
Postage and shipping	1,101	1,281	1,365	3,747
Professional fees	17,991	20,936	22,289	61,216
Telephone	1,823	2,121	2,258	6,202
Staff and board training and traveling	1,501	1,747	1,861	5,109
Office equipment	65	76	82	223
Inspection costs	-0-	1,325	-0-	1,325
Interest	528	615	656	1,799
Utilities	1,927	2,243	2,389	6,559
Other expenses	3,427	3,988	4,247	11,662
Credit reports	-0-	-0-	3,193	3,193
Deferred loan forgiven	-0-	-0-	16,600	16,600
Real estate development	-0-	-0-	6,550	6,550
Homebuyers club expenses	-0-	-0-	3,940	3,940
Printing	<u>1,037</u>	<u>1,207</u>	<u>1,286</u>	<u>3,530</u>
Total other expenses before depreciation	<u>38,519</u>	<u>46,149</u>	<u>78,013</u>	<u>162,681</u>
Depreciation expense	<u>3,069</u>	<u>3,068</u>	<u>3,069</u>	<u>9,206</u>
Total expenses	\$ <u>145,629</u>	\$ <u>170,284</u>	\$ <u>209,974</u>	\$ <u>525,887</u>

See Independent Auditors' Report on Supplementary Information.

SCHEDULE II

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF OTHER OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

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OTHER OPERATING EXPENSES:

Telephone	\$ 6,202
Postage and shipping	3,747
Annual report, meeting and luncheon	166
Maintenance and repairs	6,563
Real estate development	6,550
Staffing and board training and travel	5,109
Inspection costs	1,325
Utilities	6,559
Credit reports	3,193
Printing	3,530
Taxes and licenses	2,248
Equipment rental	2,164
Other	<u>9,248</u>
Total	\$ <u>56,604</u>

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF FINANCIAL POSITION - Neighborhood Reinvestment Capital Fund**  
**December 31, 1998**

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**ASSETS:**

Cash and cash equivalents	\$ 71,994
Due from other programs	43,153
Mortgage loans receivable	156,693
Allowance for uncollectible loan	(8,715)
Building, net of accumulated depreciation of \$2,564	17,436
Construction in progress	50,000
Other real estate owned	<u>5,919</u>
 Total assets	 \$ <u>336,480</u>

**Net Assets:**

Permanently restricted	\$ <u>336,480</u>
 Total net assets	 \$ <u>336,480</u>

Investment income and interest on outstanding loans in the amount of \$6,087 was earned on the net assets of the Neighborhood Reinvestment (NR) Capital Fund.

There were no proceeds from capital projects in excess of the amount of funds necessary to maintain the net assets at a level disclosed in the Capital Funds Agreement with Neighborhood Reinvestment. Accordingly, no funds were transferred from the NR Capital Fund for that purpose.

See Independent Auditors' Report on Supplementary Information.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

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<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>GRANTOR CONTRACT NUMBER</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Housing and Urban Development			
Pass through City of New Orleans Office of Housing and Urban Affairs:			
Community Development Block Grant - Loan Grant			
	CD#10-050 (95)	14.218	\$ 120,528
Pass through New Orleans Neighborhood Development Collaborative:			
Community Development Block Grant			
	N/A	14.218	50,000
First-Time Homeowner's Program			
	95 DHND-070/069	14.239	<u>323,103</u>
Total U.S. Department of Housing and Urban Development			<u>493,631</u>
Neighborhood Reinvestment Corporation - <u>Quasi-Government Agency</u>			
Capital Funds Grant			
	N/A	N/A	60,785
Expendable Funds Grant			
	N/A	N/A	<u>115,000</u>
Total Neighborhood Reinvestment Corp.			<u>175,785</u>
Total Federal Awards			\$ <u>669,416</u>

N/A - Not Available

See Independent Auditors' Report on Supplementary Information and Accompany Notes  
to Schedule of Expenditures of Federal Awards.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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NOTE 1 - Purpose of the Schedule of Expenditures of Federal Awards:

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of the **Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** for the year ended December 31, 1998.

NOTE 2 - Basis of Accounting:

The accompanying schedule of expenditures of federal awards is presented utilizing the accrual basis method of accounting. The value of new loans made have been included as federal expenditures on the accompanying schedule of expenditures of federal awards.

NOTE 3 - Federal Expenditures:

Federal expenditures are reported on the schedule of expenditures of federal awards as follows:

	<u>Unrestricted</u>	<u>CDBG</u>	<u>HOME</u>	<u>NRC</u>	<u>Total</u>
Expenditures	\$165,000	\$ 95,528	\$ 55	\$ 50,000	\$ 310,583
New loans made	<u>-0-</u>	<u>25,000</u>	<u>323,048</u>	<u>10,785</u>	<u>358,833</u>
	<u>\$165,000</u>	<u>\$120,528</u>	<u>\$323,103</u>	<u>\$60,785</u>	<u>\$ 669,416</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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To the Board of Directors  
**Neighborhood Housing Services of  
New Orleans, Inc.**  
New Orleans, Louisiana

We have audited the financial statements of **Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** as of and for the year ended December 31, 1998, and have issued our report thereon dated June 22, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether **NHSNO's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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(Continued)

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered NHSNO's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of NHSNO in a separate letter dated June 22, 1999.

This report is intended solely for the use of management, grantor agencies and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Bruno & Tervalon*  
**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

June 22, 1999

**& Tervalon**

MICHAEL B. BRUNO, CPA  
ALCIDE J. TERVALON, JR., CPA  
WALDO J. MORET, JR., CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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To the Board of Directors  
Neighborhood Housing Services of  
New Orleans, Inc.  
New Orleans, Louisiana

**Compliance**

We have audited the compliance of **Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** with the types of compliance requirements described in the *U.S. of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1998. NHSNO's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of NHSNO's management. Our responsibility is to express an opinion on NHSNO's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NHSNO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis of our opinion. Our audit does not provide a legal determination of NHSNO's compliance with those requirements.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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(Continued)

In our opinion, NHSNO complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1998.

**Internal Control Over Compliance**

The management of NHSNO is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered NHSNO's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the use of management, grantor agencies and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Bruno & Tervalon*  
**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

June 22, 1999

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

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We have audited the financial statements of **Neighborhood Housing Services of New Orleans, Inc. (NHSNO)** as of and for the year ended December 31, 1998, and have issued our report thereon dated June 22, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 1998 resulted in an unqualified opinion.

1. Summary of Auditors' Results

- A. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements: No Material weaknesses: No
- B. Noncompliance which is material to the financial statements: No
- C. Reportable conditions in internal control over major programs: No Material weaknesses: No
- D. The type of report issued on compliance for major programs: Unqualified Opinion
- E. Any audit findings which are required to be reported under section 510(a) of OMB Circular A-133: No
- F. Major program: U.S. Department of Housing and Urban Development, Community Development Block Grant, CFDA 14.218
- G. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- H. Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: Yes
- I. A management letter was issued: No

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

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2. Financial Statement Findings

No matters were reported.

3. Federal Award Findings and Questioned Costs

No matters were reported.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**  
**SCHEDULE OF PRIOR YEAR FINDINGS**

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1. *Internal control and compliance material to the financial statements.*

No findings reported.

2. *Internal control and compliance material to federal awards.*

No findings reported.

3. *Management Letter.*

97-1 Cash Receipts

We recommended that **NHSNO** establish procedures to segregate the responsibilities for maintaining detailed loan receivable records from collections and deposit preparation functions.

Current Status

Resolved.

97-2 Title Insurance Coverage

We recommended that **NHSNO** review and update its current procedures relating to title insurance coverage to ensure that title insurance adequately covers the mortgage.

Current Status

Resolved.

95-2 Loan Servicing Process

We recommended that **NHSNO** continue its efforts to obtain computerized loan servicing software and/or research the benefit of out-sourcing the compilation of monthly loan servicing reports. These alternative approaches should aid in the efficiency of the loan servicing process.

Current Status and Management's Response

As the **NHSNO** staff explored the implications for out-sourcing the loan servicing, several issues arose which made this action problematic. An ad-hoc committee of the Board has been formed to work with the staff to either resolve these issues or, in the alternative, decide against out-sourcing, but enhance the organization's capacity by acquiring loan servicing software. This decision and its implementation will occur by the third quarter of this year.

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**

**EXIT CONFERENCE**

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The audit report was discussed at a meeting held on June 30, 1999 and attended by:

**NEIGHBORHOOD HOUSING SERVICES OF NEW ORLEANS, INC.**

Ms. Lauren Anderson	--	Executive Director
Mr. Ronald J. Hardee	--	Treasurer

**BRUNO & TERVALON, CERTIFIED PUBLIC ACCOUNTANTS**

Mr. Michael B. Bruno, CPA	--	Managing Partner
Mr. Lawrence Jones, CPA	--	Supervisor

*Bruno & Tervalon*  
**BRUNO & TERVALON**  
**CERTIFIED PUBLIC ACCOUNTANTS**

June 22, 1999